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Selected Components affecting Quality of Performance Management Systems

Lucie Jelinkova[a*], Michaela Striteska[b]

[a,b] *University of Pardubice, Faculty of Economics and Administration, Institute of Business Economy and Management, Studentska 95, 532 10 Pardubice*

Abstract

The paper addresses two basic components of succesful performance measurement and management, namely the identification of an appropriate set of performance measures and factors that created quality of the performance management system. Based on the literature review, the results of previous research studies and case study analysis, the importance of financial and non-financial measures for decision-making is identified. Furthermore, the current trends in financial performance measurement and the specific areas of performance measurement using non-financial indicators are examined. The essence of sucessful performance management is seen in identification of key factors that affecting the quality of the performance management system. Therefore, the attention is paid to this issue.

Keywords: Performance measurement, Performance management system, Factors, Financial measures, Non-financial measures

1. Introduction

The development of the economic environment and the related development of diverse approaches to corporate performance management are further reflected in the development of all components of performance measurement systems, primarily in defining performance measures and in determining methods of their measurement (Wagner, 2011). This development is mainly affected by: the technical-economic type of economy, globalization trends, development of modern technologies, the influence of intellectual assets, the degree of knowledge of economic systems, etc. (Dluhosova, 2007)

In the last decade, the pressure on the use of both financial and non-financial measures for corporate performance monitoring has increased continuously. The primary reason is that traditional financial measures are no longer sufficient for understanding performance in a dynamic business environment because they promote short-termism

* Corresponding author. Tel. + 420-466-036-664 fax. +420-466-036-010

E-mail address: lucie.jelinkova@student.upce.cz

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leading to a lack of strategic focus and failure to provide data on quality (Kagioglou et al., 2001, Robinson et al., 2005, Wagner, 2011).

In response to this fact a wide variety of performance measurement systems have been developed and implemented – e.g. Performance Measurement Matrix (PMM) (Keegan et al., 1989), the results and determinants framework (Fitzgerald et al., 1991), Balanced Scorecard (Kaplan and Norton, 1992), the SMART pyramid (Lynch and Cross, 1995, Tangen, 2007), Brown's (1996) macro process model of the organisation, Performance Prism (Neely et al., 1995, 2001), Kanji Business Excellence Performance Management Systems (Kanji, 2002). All of the mentioned PMSs are designed to help an organisation – in their specific way - to identify a set of performance measures which appropriately reflect its strategic objectives. The knowledge of Czech enterprises about PMSs is growing. The enterprises are realizing the important role of performance measurement and management. (Horcicka, Jelinkova, 2014)

Performance measurement systems become effective instruments of corporate performance management only if they are integrated suitably integrated within a company's environment, if they facilitate the implementation of the company's strategy, are flexible – i.e. capable of responding to changes in the dynamic, quickly transforming business environment – and thus provide precise and up-to-date information. The management of the performance measurement systems aimed at keeping the dynamics and relevance of those systems is possible when these two key questions are understood and addressed (Kenerley and Neely, 2003):

1. What factors affect (facilitate and hinder) the ability of the performance measurement systems to transform in the course of time?
2. How can companies manage their performance measurement systems in order to continue to fulfill their purpose?

It was in this same context that the main goal of this submission was defined; i.e. to identify the key factors affecting the quality of the management of the performance and relevance of individual performance measures for decision-making and management. First, attention was paid to financial measures, namely to the use of the modern indicators of financial analysis in selected companies. With non-financial measures areas and methods of their measurement were observed, because as stated by Stivers et al. (1998), among others, despite a large number of academic studies regarding non-financial measures, only little is still known about the actual current practice.

2. Performance management system: performance measures and factors affecting the quality

The success of performance measurement and management depends, above all, on the choice of correct performance measures and of an instrument to measure the degree of their fulfillment and on possible use in corporate management. (Dluhosova, 2007) Corporate performance can be assessed by means of several various indicators. However, the question remains which of these indicators are optimal for measuring long-term corporate performance? Most executives agree that there is no magic formula or one right measure for evaluating business performance. (Stivers et al., 1998)

In the recent years so-called traditional indicators of financial performance measurement have been abandoned. The current trend in financial management results from orientation on the management of corporate values and on transition from accounting, through economic to market measures. Of major importance is transition to value-based management (EVA, MVA), to the increasing information efficiency of capital markets and to the preference of corporate market value. The new concept is based modified financial indicators that enable better identification of processes that can improve the value for shareholders and overall corporate value over the long-term. This concept known as Shareholder Value is viewed as a measure of performance and simultaneously the highest corporate goal. (Dluhosova, 2007)

Resulting from the criticism of performance management only in terms of financial indicators, companies began to employ non-financial measures as well. The reason for the use of non-financial measures is that these measures are better indicators of future financial performance then traditional financial measures and that they are valuable in evaluating and motivating managerial performance (Kaplan, Norton, 1992, Hemmer, 1996). This statement is confirmed also by other scholars, e.g. Ittner et al. (1997, 1998) found that customer satisfaction measures are indicators of accounting metrics and measures such as market share data are frequently used to evaluate managerial performance. Banker et al. (2000) investigated that customer attitudes are good predictors of future financial performance.

With the increasing use of non-financial measures it is important to recognize that they are not free of limitations. Fisher (1992) presents an example: If a company monitors the percentage of shipments delivered on time, there may